

**BOARD OF COUNTY COMMISSIONERS
AGENDA ITEM SUMMARY**

Meeting Date: 04/19/2006

Division: Budget and Finance

Bulk Item: Yes X No

Department: Office of Management & Budget

Staff Contact Person: Salvatore R. Zappulla

AGENDA ITEM WORDING:

Approval of a Debt Management Policy which will provide guidelines as to the administration, capacity, and acceptable types of Debt that could be issued by the county.

ITEM BACKGROUND:

While the County currently has very little outstanding debt, the need for additional debt issuance will be an issue in the near future. The Debt Policy provides guidance on financing vehicles available to the County, and speaks to issues such as purposes and uses of debt, creditworthiness, disclosure, capital planning, debt limits, structure of debt, administration of debt, selection of underwriters and the debt issuance process.

PREVIOUS RELEVANT BOCC ACTION:

None

CONTRACT/AGREEMENT CHANGES:

N/A

STAFF RECOMMENDATIONS:

Approval

TOTAL COST: \$0

BUDGETED: Yes No

COST TO COUNTY: \$0

SOURCE OF FUNDS:

REVENUE PRODUCING: Yes No X **AMOUNT PER MONTH** **Year**

APPROVED BY: County Atty. OMB/Purchasing Risk Management

DIVISION DIRECTOR APPROVAL:


(Salvatore R. Zappulla)

DOCUMENTATION: Included X Not Required

DISPOSITION:

AGENDA ITEM #

Monroe County Board of County Commissioners Debt Management Policy

The objective of this Debt Management Policy is to provide ongoing guidance to the Administration of the County, and the Monroe County ("County") Clerk of the Circuit Court, as to the Board of County Commissioners' ("Board") policies with respect to the County's debt. The debt management policy will determine the actions required by staff in the administration of debt, and will define limits amongst other actions that require specific approval by the Board.

The County issues debt under several types of security. While the County could issue general obligation debt, which is secured by the County's ability to levy ad valorem taxes on real and personal property within the County, this practice has not been used in the past by the County.

Special Assessment Bonds are secured by and repaid from the special levy imposed on the communities and property owners that benefit directly from the specific improvements financed by the bonds. The full faith and credit of the municipality does not back this type of bond.

Revenue Bonds are secured by dedicated revenue streams arising from sales taxes, special taxes and charges for services, such as water, sewer, and solid waste collection and disposal.

In addition, other forms of debt obligations, such as capital leases, commercial paper, bank loans and notes, may be appropriate financing vehicles from time to time.

Several guiding principles have been identified which provide the framework within which the issuance, management, continuing evaluation of and reporting on all debt obligations issued by the County takes place. These principles are incorporated in the current process and it is intended that they be incorporated into the formal policy document as follows:

PURPOSE AND USES OF DEBT

Asset Life – The County will consider long-term financing for the acquisition, replacement, or expansion of physical assets (including land) only if they have a useful life of five years or greater. Capital Outlay expenditures expected to occur in the normal course of County operations will be paid from current operating resources. The County generally will not issue debt for periods exceeding the useful life or average useful lives of the project or projects to be financed or to support operating expenditures.

Capital Financing – The County normally will rely on specifically generated funds and/or grants and contributions from other governments to finance its capital needs on a pay-as-you-go basis. This may require securing "short-term" (not exceeding five years amortization) construction funding. This financing is anticipated and provides for maximum flexibility in Capital Improvement Plan (CIP) implementation. "Long-Term" Debt (exceeding five years amortization) will be issued for capital projects when it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries. Debt shall not, in general, be used for projects solely because insufficient funds are budgeted at the time of acquisition or construction.

Other Debt – The County may consider on a case-by-case basis, the use of its debt capacity for legally allowable capital projects by public development authorities or other special purpose units of government that benefit the County as a whole. An example may be the issuance of County debt to support construction of a wastewater system operated by an authority or district within the County.

CREDITWORTHINESS

Credit Ratings – The County seeks to maintain “A” or higher credit ratings for all categories of short-term and long-term debt that can be achieved without compromising delivery of basic county services and adherence to adopted County policy objectives.

Financial Disclosure – The County is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, County departments and agencies, other levels of government, and the general public to share clear, comprehensible, and accurate financial and other relevant information. The County is committed to meeting secondary disclosure requirements on a timely and comprehensive basis. The Clerk of The Circuit Court’s Finance Department is responsible for ongoing disclosure to established national information repositories and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies, and may carry out such responsibility through the engagement of an outside dissemination agent.

Capital Planning – To enhance creditworthiness and prudent financial management, the County is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning. Evidence of this commitment to systematic capital planning, intergovernmental cooperation and coordination, and long-term planning is demonstrated through adoption and periodic adjustment of a Comprehensive Plan pursuant to Chapter 163, Florida Statutes, the Florida Growth Management Act and Rule 9 J 5, and the adoption of the five-year Capital Improvement plan (CIP).

The CIP will specifically include road projects.

Debt Limits – The County will keep outstanding debt within the limits prescribed by State statute and at levels consistent with creditworthiness, best practices, needs and affordability objectives. General Obligation debt burden, which is currently zero, is generally evaluated in terms of certain debt ratios, including debt per capita, debt to assessed values of taxable property and debt service to general expenditures. Debt capacity supported by sales taxes and surtaxes, gas taxes, state shared revenues, assessments and covenant to budget and appropriate is measured by debt service coverage. Depending on the strength of the revenue stream, coverage requirements for marketable debt may range from 1.0 to 1.5 times. The bond resolution generally specifies a level of coverage required for the Additional Bonds Test that is consistent with the above range of coverage.

General obligation debt backed by ad valorem taxes will not exceed \$1,000 per capita and general obligation debt service will not exceed fifteen percent of general government expenditures. Revenue bond coverage ratios will be maintained, at a minimum, as defined by bond covenants.

DEBT STRUCTURE

Debt Structure – Debt will be structured to achieve the lowest possible net cost to the County given Market conditions, the urgency of the capital project, and the nature and type of security provided. Furthermore, to the extent possible, the County will design the repayment of its overall debt so as to recapture rapidly its credit capacity for future use. The County shall strive to repay at least 20 percent of the Principal amount of any general obligation debt within five years and at least 40 percent within 10 years

Length of Debt – Debt will be structured for the shortest amortization period consistent with a fair allocation of costs to current and future beneficiaries or users. The weighted average life of a debt obligation should not exceed the weighted average life of the asset acquired. The term of the debt repayment may vary between 3 and 30 years, depending on the asset life and allocation of costs.

Back loading – The County will normally seek to structure debt with level principal and interest costs over the life of the debt. “Back loading” of costs will only be considered when extraordinary or unanticipated external factors such as natural disasters make the short-term cost of debt prohibitive, when the benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present, when such structuring is beneficial to the County’s overall amortization schedule, or when such structuring will allow debt service to more closely match project revenues during the early years of the project’s operation.

Refunding – The County’s staff and its financial advisors will undertake periodic reviews of all outstanding debt to identify refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of refunding or the refunding is essential in order to modernize covenants essential to operations and management. In general, advance refunding for economic savings will be undertaken when a net present value savings, including all costs of issuance, insurance and gross underwriting spread, of at least four percent of the refunded debt can be achieved. Current refundings that produce a net present value savings of less than four percent will be considered on a case by case basis. Refundings with negative savings or extended final maturity will not be considered unless there is a compelling public policy or legal objective.

Variable Rate Debt – The County may choose to issue securities that pay a rate of interest that varies according to pre-determined formula or results from a periodic remarketing of the securities, consistent with state law and covenants of pre-existing bonds, and depending on market conditions. The County will limit the portion of its outstanding bonds in variable rate form to reasonable levels in relation to total debt. In considering variable rate debt, the County will consider also the difficulties of budgeting debt service. The County will also consider purchasing an interest rate cap to control interest rate exposure and facilitate budgeting.

Subordinated Debt – The County may issue subordinated debt, which has a lower claim on assets to other debt, that is, repayable only after other debts with a higher claim have been satisfied will generally not be issued by the County.

Short Term Notes – Use of short-term borrowing, such as bond anticipation notes and tax-exempt commercial paper, will be undertaken only if the transaction costs plus interest on the debt are less than the cost of internal financing or available cash is insufficient to meet working capital requirements.

State Revolving Fund Program – This program provides funds for projects involving water supply and distribution facilities, storm water control and treatment projects, air and water pollution control, and solid waste disposal facilities. Whenever possible, this program will be utilized since the costs associated with issuing the notes are low and local agencies benefit from the strength of the state’s credit.

Credit Enhancements – Credit enhancement, such as letters of credit and bond insurance, may be used, but only when net debt service on the bonds is reduced by more than the costs of the enhancement.

DEBT ADMINISTRATION

Debt Management Council – As part of the debt management process a Debt Management Council (“DMC”) will be created to review and make recommendations regarding the issuance of debt obligations and the management of outstanding debt. This DMC will consist of a representative from the Clerk of The Circuit Court, the County Administrator, and the County Attorney’s office. Others participating in the DMC’s efforts to provide technical expertise and advice include but are not limited to the County’s Financial Advisor, Disclosure Counsel and Bond Counsel.

The DMC considers all outstanding and proposed debt obligations, and develops recommended actions on issues affecting or relating to the creditworthiness, security and repayment of such debt obligations, including but not limited to procurement of services; structure, repayment terms and covenants of the proposed debt obligation; and issues which may affect the security of the bonds and primary and secondary market disclosure to bondholders.

Annual Debt Report – The DMC will be responsible for preparing and releasing an Annual Debt Report to the Board. Such report shall pertain to the prior Fiscal Year, and should include the following elements:

- 1) Calculations of the appropriate ratios and measurements necessary to evaluate the County’s credit, and that of its various Enterprise Systems, as compared with acceptable municipal standards.
- 2) Information related to any significant events affecting outstanding debt, including conduit debt obligations.
- 3) An evaluation of savings related to any refinancing activity.
- 4) A summary of any changes in Federal or State laws affecting the County’s debt program.
- 5) A summary statement by the DMC as to the overall status of the County’s debt obligations and debt management activities.
- 6) Report of compliance with this Debt Management Policy.

Report to Bondholders – The County through the Clerk of the Circuit Court’s Finance Department, shall prepare and release to all interested parties the Comprehensive Annual Financial Report (CAFR) which will act as the ongoing disclosure document required under the Continuing Disclosure Rules promulgated by the Securities Exchange Commission [Sec Rule 15c2-12(b)95)]. This report shall contain general and demographic information on the County, and a discussion of General Government, the Municipal Service District - Waste, the Card Sound Bridge, the Key West Airport, the Marathon Airport and any additional systems that may subsequently be established by the County. The information presented on General Government and on each

Enterprise System shall comply with the disclosure obligations set forth in the Continuing Disclosure Certificates issued in connection with its debt obligations, and may include information on the following: service areas, rates and charges, financial statement excerpts, outstanding and proposed debt, a summary of certain bond resolution provisions a management discussion and analysis of operations, and such other information as the County shall deem to be important. The report shall also include Notes to the Financial Statements and, to the extent available, information on conduit debt obligations issued by the County on behalf of another entity.

Arbitrage Compliance – The Clerk of the Circuit Court’s Finance Department is responsible for the record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. Arbitrage rebate liabilities are calculated periodically, as required, by professionals specializing in arbitrage calculations. The liability, if any, will be reported in the County’s annual financial statements.

Financing Proposals – Any capital financing proposal to a County department, agency or utility involving pledge or other extension of the County’s credit through sale of securities, execution of loans or leases, marketing guarantees, or otherwise involving directly or indirectly the lending or pledging of the County’s credit is referred to and reviewed by members of the DMC.

Conduit Bond Financing – Periodically the County is approached with a request to provide conduit bond financing for qualified projects through a County Health Facilities Authority or County Industrial Development Authority. In the event such authorities are formed to issue conduit debt, such application will be reviewed by the DMC who will make recommendations to the Board.

FINANCING TEAM SELECTION

Financing Team Selection Process – The DMC recommends to the Board the selection of underwriters, bond counsel, disclosure counsel, and financial advisors. The Board makes all final determinations. The determination is made following an independent review of responses to requests for proposals (“RFP”s) or Requests for qualifications (“RFQ”s) by the County’s management as described below.

Underwriters – For all competitive sales, underwriters are selected by their competitive bids on bonds. For negotiated sales, underwriters are selected through an RFP process to appoint a pool of underwriters for a term of up to five years. From that pool, senior managing underwriters for individual financings are selected through a “mini-RFP” process based on their qualifications to manage the particular transaction under consideration. A member of the Clerk of the Circuit Court’s Finance Department, the County Administrator and the Financial Advisor should conduct the evaluation of responses to RFP’s and mini-RFPs.

Bond Counsel – The County retains external Bond Counsel for all debt issues. All debt issued by the County includes a written opinion by bond counsel affirming that the County is authorized to issue the debt and determining the debt’s federal income tax status. Bond Counsel is engaged for a term of up to five years through a competitive bid process approved by the Board and administered by the County Attorney. The selection criteria include a requirement for comprehensive municipal debt experience.

Disclosure Counsel – The County retains external Disclosure Counsel for all public offerings. Disclosure Counsel renders an opinion to the County (and a reliance letter to the underwriters if requested) in connection with each such offering to the effect that, with certain conditions, or omits a material fact required to be included. Disclosure Counsel drafts disclosure documents, including Official Statements, and shall provide legal advice to the County to assist it in meeting its secondary market disclosure obligations. Disclosure Counsel is engaged in the same manner as Bond Counsel.

Underwriter's Counsel – On negotiated public offerings, the senior managing underwriter may select counsel, subject to approval by the County, to be compensated as an expense item to be negotiated as part of the gross underwriting spread.

Tax of Special Counsel – In rare instances, additional specialized counsel may be appropriate for inclusion on the financing team, subject to advice by Bond Counsel, and shall be secured in the same manner as the Bond and Disclosure Counsels.

Financial Advisor – The County retains a Financial Advisor, selected for a term of up to five years, through an RFP process administered by the County's Office of Management and Budget. Financial Advisors are required to have comprehensive municipal debt experience, including diverse financial structuring and pricing of municipal securities. For each County bond sale the Financial Advisor will assist the County in determining the optimum structure of the debt and negotiating favorable pricing terms and managing the debt issuance process. In addition to transactional tasks, the Financial Advisor will advise the County on strategic financial planning matters and assist in management and operational evaluations and improvements where appropriate and as directed by the County.

Paying Agent – The County may utilize a Paying Agent on all County bonded indebtedness. The fees and expenses for servicing outstanding bonds are paid from the appropriate debt service fund, unless specified otherwise by the County.

Auditors – Auditors normally are not involved in the debt issuance process or disclosure documents. They provide (sell to the County) an opinion as to the fairness of presentation of the annual financial statements that belong to the County. The opinion and financial statements may be included in an Official Statement without the consent of the auditor and without paying a fee for such use.

Other Service Providers – The County may periodically select other service providers (such as escrow agents, verification agents, trustees and arbitrage consultants) as necessary to meet legal requirements and minimize net County debt costs. These services can include debt restructuring services and security or escrow purchases. The County may select firm(s) to provide such financial services related to debt without a RFP or RFQ, consistent with County and State legal requirements.

DEBT ISSUANCE PROCESS

Bond and Note Sales – After obtaining approval by the Board to incur debt, the requesting department, in conjunction with the DMC, assists the County Attorney and Bond Counsel in the production of appropriate resolutions for consideration by the Board. The requesting department also assists the Financial Advisor in the development of a "Plan of Finance" document to be

presented to the Board along with the appropriate resolutions. The Office of Management and Budget will use the Plan of Finance to develop the necessary budget amendments to properly record the proposed transaction. Such Budget entries will identify sources and uses of bond proceeds, Funds and/or Sub-Funds and/or account codes for deposit of all bond Proceeds, and Funds and/or Sub-Accounts for payment of debt service. No bonds, notes or other forms of indebtedness are incurred by the County without submission of the Plan of Finance and budget amendment to the Board by the Clerk of the Circuit Court and the County Administrator.

Investment of Bond and Note Proceeds – All proceeds of debt incurred by the County, other than conduit debt obligations, are invested as part of the County's consolidated cash pool unless otherwise specified by the bond covenants or by the Clerk of the Circuit Court. Investments shall be consistent with those authorized by existing County and State law and by the County's investment policies.

Costs and Fees – All costs and fees related to issuance of bonds, other than conduit bonds, are paid out of bond proceeds or by the project lead department. Related professional fees may be negotiated by the DMC with the assistance of the Financial Advisor in order to secure high quality services at competitive rates.

Competitive Sale – In general, County debt is issued through a competitive bidding process. Bids are awarded on a True Interest Cost basis ("TIC"), provided other bidding requirements are satisfied. In such instances where the Financial Advisor and DMC deem the bids received to be unsatisfactory, the DMC shall recommend rejection of bids to the Board and request authorization to enter into negotiation for sale of the securities.

Negotiated Sale – Negotiated sale of debt is considered when the complexity of the issue requires specialized expertise, when the negotiated sale would result in substantial savings in time or money, when market conditions are unusually volatile, if the County's credit is problematic or when a negotiated sale is otherwise in the best interest of the County and authorized by resolution to that effect by the Board.